MISCELLANEOUS SMALL BUSINESS AMENDMENTS ACT OF 1993

Y 4. SM 1: 103-35

Miscellaneous Small Business Amendm...

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

H.R. 2594

TO AMEND THE SMALL BUSINESS ACT

WASHINGTON, DC, JULY 20, 1993

Printed for the use of the Committee on Small Business

Serial No. 103-35

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MISCELLANEOUS SMALL BUSINESS AMENDMENTS ACT OF 1993

TUESDAY, JULY 20, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The committee met, pursuant to notice, at 1 p.m., in room 2359-A, Rayburn House Office Building, Hon. John J. LaFalce (chairman of the committee) presiding.

Chairman LAFALCE. The Small Business Committee will come to order. Today, our committee is meeting to receive testimony on H.R. 2594, the Miscellaneous Amendments Act of 1993.

[The bill, H.R. 2594, sectional analysis, and Public Law 101-409 may be found in the appendix.]

Chairman LAFALCE. Members have before them a copy of the bill and a sectional analysis which explains the measure. I will not go into the details of it, but simply say that it addresses three issues which need to be acted upon immediately: The authorization for the Certified Development Company Loan Program [CDC]; the commencement of the White House Conference on Small Business; and technical changes to the Small Business Development Center Program and its replication under a pilot program in Central Europe.

Today, it seems that almost everything is viewed in budgetary terms, so let me briefly talk about funding.

In regard to the Certified Development Company Program, the bill does increase the authorization level for this year. This change will not require a supplemental appropriation, however. This is a very efficient program. Under the Credit Reform Act, it costs $500,000 to approve $100 million in debenture guarantees. This minimal amount can be shifted from other previously appropriated funds the agency has available. Without this change in the authorization level, this valuable program will run out of budget authority by early September.

Next year, the program will be funded as part of the regular bill which the House passed yesterday.

Second, it is imperative that we provide the necessary authority for the SBA to begin planning for the White House Conference on Small Business. Even if we act immediately, the agency will be hard pressed to hold the national conference in 1995 if we are to have maximum participation of local small businessmen and women at the preceding State and regional conferences.

In regard to the White House Conference, we are proposing to increase the authorization by $2 million simply to ensure that the

$5 million originally authorized is, in fact, available. In 1993, as part of the SBA's salary and expense account, $2.5 million was initially included. The supplemental appropriations bill then reduced the salary and expense account by rescinding $2 million and using the money for 7(a) loan guarantees. We must ensure that those funds have been technically restored to the authorized amount.

The increase proposed by the bill is simply to forestall any argument about the amount that still needs to be appropriated to pay for the conference, another $4.5 million. By increasing the authorization, we have eliminated any need to get into legislative history to ensure that we can appropriate another $4.5 million.

Finally, the committee must act on the SBDC pilot program. The committee originally anticipated a 3-year program. The program is authorized for $3 million, $5 million, and $8 million respectively over the 3 years; however, the total appropriation was only $4 million. Thus, we are proposing to extend the program by 3 years but at the reduced rate of $2 million for each of the extra years to compensate for the less-than-anticipated level of funding during the program's initial years.

[Chairman LaFalce's statement may be found in the appendix.]

Before we go to the Administrator, I will call upon the ranking minority member for any opening remarks she may wish to make.

Mrs. Meyers.

Mrs. MEYERS. Thank you, Mr. Chairman. Mr. Chairman, I am glad that the committee will be hearing testimony from Administrator Bowles on a matter I consider to be of the greatest importance to our Nation's small businesses, and that is the convening of the next White House Conference on Small Business.

As you know, Mr. Chairman, I introduced, on June 15, 1993, a measure which has garnered bipartisan support to postpone the conference by just 1 year. My bill, H.R. 2421, provides that the State conferences may begin after December 1, 1993, and that the national conference occur between January 1 and April 1, 1995.

Obviously, the White House Conference cannot go on as scheduled under current law. The Bush administration failed to appoint the White House Conference commissioners until December 1992, at which point the State conferences should already have been under way. The current administration has not taken any action to plan for the conference.

I am very disappointed by the lack of priority that has characterized the conduct of this important event, and so have my small business men and women constituents. Many have approached me at meetings in Kansas to express their strong support for this small business forum and to inquire about the progress in plans for the upcoming conference.

Mr. Chairman, for those reasons, I feel very strongly that our small business men and women deserve the opportunity to identify and communicate their concerns and recommendations to Congress and to the President at the earliest possible time. Quite frankly, I cannot support the time line for the conference put forward in H.R. 2594. This Member of Congress does not want to tell her small business constituents that, "We want to hear from you but not until after the next election."

Much legislative action that will profoundly affect small business is being considered during this session of Congress, particularly the President's proposed economic plan and health care reform. While I am heartened by Administrator Bowles' written statement in strong support of the conference, I urge him to use his talents and knack for getting things done quickly, as exhibited by the quick elimination in the backlog of 7(a) loans, to move plans for the conference ahead as expeditiously as possible.

I would also state that I hope the Administrator would give us a timeframe for the appointment of the Chief Counsel for Advocacy, since I assume the Chief Counsel and his or her staff will assist in operating the conference. Can we expect the advocate's appointment by the August recess?

Mr. Chairman, my staff informs me that the Office of Management and Budget cleared the Administrator's testimony on Friday, July 16, 1993. However, the minority, this side of the aisle, was not provided with a copy of Mr. Bowles' testimony until this morning at 10 a.m. I would appreciate a clarification by the Administrator during his remarks as to the fact that his testimony indicates it is the desire of President Clinton to delay the commencement of any State conferences until after the November 1994 elections.

Furthermore, Mr. Chairman, I hope all diligence is occurring to make certain that testimony is received from witnesses and distributed to all committee members in accordance with the committee rules.

With regard to the other items included in the chairman's bill, turning first to the additional authorization for the Certified Development Company, I must express my concern that we are continuing to treat the symptoms without addressing the root of the problem.

The CDC loan programs have been highly successful in providing long-term, fixed-rate loans for businesses in need of capital improvements to expand, such as new buildings or equipment. I strongly support this program, which has an extremely low default rate, and is the only Federal program that I am aware of which has a job creation requirement. However, as demand for this program and for others, such as 7(a), continues to grow by leaps and bounds each year, can Congress continue to try to match these increases and ignore the bigger problem which is the failure of banks to lend to small businesses?

When are the committees of jurisdiction going to exhibit some leadership on this issue? The President has taken steps to begin to lighten the regulatory burden on banks which has contributed to this credit crunch, but we need to be able to show a lot more progress in this area.

I am very glad the Administrator is here to explain the proposed changes in the Small Business Development Center Program because I find them somewhat confusing.

I look forward to the testimony and would hope we are told exactly what we are doing under H.R. 2594 and also why we are doing all three of these in one bill. I think that is confusing and inappropriate.

Mr. Chairman, I apologize for my lengthy statement, but we will be covering many important issues this afternoon, and I felt that it

was important to establish my views and concerns so that the Administrator may address them in his remarks.

Thank you for your attention to these issues, and I look forward to hearing from Mr. Bowles.

[Mrs. Meyers' statement may be found in the appendix.]

Chairman LAFALCE. Thank you very much. I look forward to hearing Mr. Bowles, too.

Are there any other members who have any statement they would like to make?

Mr. MFUME. Mr. Chairman, I don't have a written statement.

I want to thank you for moving us to the point of this hearing. I also want to express how pleased I am at what appears to be the early efforts of Mr. Bowles to get into place a number of things within the agency that speak to the longevity and the ability of the agency to function in a way that this Congress would expect. He has brought a thoughtful, innovative, and practical approach to the SBA, and after years of the status quo, change and activity is refreshing. It is good to see some of the things that have been taking place.

None of us expect to agree all the time with the new Administrator, but most of us are looking for an Administrator who has some sense of purpose and future and direction. I think that is clearly evidenced in Mr. Bowles.

I will be leaving, Mr. Chairman, shortly after the hearing formally gets under way, because of a schedule conflict with Mr. Panetta, but I wanted to say those things on the record in front of Mr. Bowles and to thank you again for this hearing, as you, as chairman of this committee, continue to focus our attention so we might be able to address the critical issues that confront all of us.

Thank you, Mr. Chairman.

Chairman LAFALCE. Any others.

Mr. Poshard.

Mr. POSHARD. Thank you, Mr. Chairman. I would second the comments of Mr. Mfume with regard to Administrator Bowles and the direction that he is taking the Small Business Administration at this point in time.

Mr. Chairman, let me thank you for holding a hearing on this most important bill. I think this is a strong effort to address some of the pressing problems in our small business community, and I look forward to working with the committee and the Administrator to develop this legislation.

I would like to make a further comment, Administrator Bowles, that I am hopeful, as we progress in our response to the flooding situation along the Mississippi and the respective States that affects, that the SBA would continue to work with the administration in taking care of the needs of the small businesses along that Mississippi River which have been affected by the flooding situation. I know you have your people in place. I know the good work that you have already done, but that is of particular concern to me since a large part of my neighbors' districts adjoin that river.

Thank you for being here, and I look forward to the hearing and the questions that we have to put to you on that issue. Thank you.

Chairman LAFALCE. Any others with opening comments.

Mr. Zeliff.

Mr. ZELIFF. I just would like to echo the good words that have been said about Administrator Bowles and particularly saying them from this side of the aisle. I have had a chance to meet with you and talk to you a little bit about some of your philosophy and your background, and we look forward to working with you. I think we have a great challenge ahead on small business.

Somehow, we get a lot of people talking about the gems of wisdom, and what we need to be doing for small business, and sometimes we need people with some experience to put those things together. So, I look forward to doing that, and I want to echo comments concerning the flood damage and the affect on small business.

I was one of New Hampshire's representatives, in 1986, to the Small Business White House Conference, and I would like to, for what it is worth, try to encourage you to have it as soon as possible. I think we have many problems, many opportunities; and the sooner we can get on with our business, and the sooner we can do it early in your career, the better off it will be for everybody.

Thank you, Mr. Chairman.

Chairman LAFALCE. Mrs. Clayton.

Mrs. CLAYTON. Yes; I also want to echo the expectations that those of us from North Carolina have of Administrator Bowles. We have known of his leadership. We also want to express the importance of having a White House Conference on Small Business and to begin to talk about issues that are affecting small business, and also try to look at the definition of small business to include, hopefully, entrepreneurs, not only just small business by some fixation about the volume of dollars they bring in or the number of employees, but also those who may have 20 employees and less who are very much thinking of themselves as business people, and even entrepreneurs who may be self-employed. Hopefully, they are within your total definition.

I know you, personally, but I am thinking about policy now. I am particularly concerned in the planning of the White House Conference that it would be all-inclusive to include that category of small business person and to make sure that women are included and the minorities are included so that it will reflect the smaller business persons from rural communities as well as from urban areas. So, I look forward in planning the opportunity that the White House Conference would give for the identification of the needs of small business persons.

Chairman LAFALCE. Thank you very much.

Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman. I just want to associate myself with Mrs. Meyers' remarks and Mr. Zeliff's and say, let's get on with it, and thank you for your good job so far.

Chairman LAFALCE. Thank you. I thank all the members for their comments.

Before we call upon Mr. Bowles, I just want to say that my staff advises me that we received the testimony of the Administrator at 10 o'clock this morning, and we shared it immediately, as we always do. So, Mr. Bowles, if it was approved by OMB before that time, do make more diligent effort to have your staff get it over to us a bit earlier if you can, OK? With that, let us begin.

TESTIMONY OF ERSKINE B. BOWLES, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION

Mr. BOWLES. Thank you very much. Thank you, Mr. Chairman, Congresswoman Meyers, and members of the committee.

I am pleased to be here today supporting, in large part, H.R. 2594, the Miscellaneous Small Business Amendments Act of 1993. The SBA does strongly support this legislation and each of its major sections, including increasing the authorization levels for the 504 Program, changing the dates for the White House Conference, allowing SBA to enter into grants or cooperative agreements with SBDC's, and changing the authorization for the Central European Commission.

I believe that passage of this legislation will help me to meet each of the four goals that the President has established for this agency. These four goals are: First, to help relieve the credit crunch. As you all well know, small businesses are starved for capital. We want to make efforts to get capital into the hands of small business for small businesses cannot grow and cannot create jobs without capital.

Second, to reduce the regulatory and paperwork burdens that inhibit the growth and productivity of small business; third, to restructure, reorganize, and reinvigorate the SBA so that it is focused on meeting the needs of small business; and fourth, to serve as the President's eyes and ears in the small business community so that I can report those concerns directly to the President.

As it relates to the legislation, section 2 deals with the 504 Program, first, by increasing the authorization levels for the SBA's 504 Program. H.R. 2594 ensures the funding of long-term, fixed-rate financing for small businesses to acquire badly needed machinery, equipment, and facilities.

With a subsidy rate of only 0.5 percent, the 504 Program truly gives the taxpayers a big bang for their buck. Moreover, since the program only offers a 40-percent guaranty, each 504 dollar offers tremendous leverage in the small business sector. Most importantly, the 504 Program creates jobs and creates employment opportunities for our people.

SBA has a regulatory requirement that, in most cases, at least one job must be created for each $35,000 of loan guarantee. This program actually exceeds that level in creating one job for each $8,900 in program dollars. With the cost of a subsidy rate of only 0.5 percent, the cost in actual Federal outlays per job is only $44.50, clearly a great bargain for the taxpayers.

Small business demand for 504 loans has also been increasing, and increasing at a steady rate. It has been growing at a compound rate of 32 percent per year over the last several years. Projected demand for this fiscal year exceeds $800 million and could reach as high as $900 million in this fiscal year, and $1.2 billion in fiscal year 1994. SBA and OMB are working on a request to reprogram up to the authorized ceilings of $784 million right now, but this will still leave us short of funds to meet the expected demand of between $800 and $900 million for this current fiscal year.

We need to raise the ceiling to $900 million in fiscal year 1993 so that we can reprogram additional funds into the 504 Program and

avoid shutting the program down in August and September. We also strongly support raising the ceiling in fiscal year 1994 to $1.2 billion.

Section 3 of your bill deals——

Chairman LAFALCE. Before we get to section 3, I just want to point out two important things. Number one, we are talking about a program that creates a job for $44.50 per year, which is pretty good.

Mr. BOWLES. I think it clearly is one of the best programs this country has.

Chairman LAFALCE. The second thing is, I authored the program, and I just want to make sure that it continues to work.

Next section.

Mr. BOWLES. You should certainly be proud of that.

Mr. Chairman, the White House Conference is important to the President, and I assure you that it is important to his SBA Administrator. As you know, past conferences were very successful; legislation supportive of small business has arisen as a direct result of the 1980 and 1986 conferences.

The State, regional, and national conferences will focus the Congress and the administration on issues that foster small business growth and development. The conference will also help keep us on a steady course of making SBA Programs and services more valuable to our customers.

The time line of your bill calls for the State conferences to begin after November 15, 1994, and the national conference to be held between October 1st and December 31st, 1995. This schedule gives us ample lead time to make this the best conference ever. However, we would like to request that, should we be able to move more rapidly, we hope that you will give us the flexibility to do so.

I know the President is anxious to appoint the commissioners. Increasing the authorization to $7 million will allow the conference to be fully funded until the report is produced later on that year. Clearly, we have a large task ahead of us, and we are prepared to move forward.

Section 4 deals with the SBDC's. Mr. Chairman, section 4(a) of the bill would allow the SBA to enter into grants or cooperative agreements with SBDC's for the purpose of developing and implementing an information-sharing system. From its inception in 1988 to date, the SBDC information clearinghouse has handled more than 13,368 inquiries. H.R. 2594 would convert the current contract procedure to a grant cooperative agreement procedure, allowing SBA to enter into grants or cooperative agreements with the clearinghouse operation for the purpose of developing and implementing an information-sharing system.

Section 4(b) of H.R. 2594 would change the authorization for the Central European Small Business Development Commission from $8 million in fiscal year 1993 to $2 million for each of the fiscal years 1993, 1994, 1995, and 1996. SBA supports the objectives of the commission and agrees with the recommendations.

Section 4(c) of the bill would amend the Small Business Credit and Business Opportunity Enhancement Act of 1992 to allow the SBA to publish in the Federal Register regulations governing the SBDC Program. The agency needs regulations to uniformly and

fairly administer the SBDC Program. Regulations will establish a framework for the efficient and effective operation of the program, and, therefore, SBA strongly endorses this section.

Mr. Chairman, this concludes my prepared remarks regarding the SBA's support for the passage of H.R. 2594. I will be happy to answer any questions you may have.

[Mr. Bowles' statement may be found in the appendix.]

Chairman LAFALCE. Thank you very much.

Mr. Bowles, I have only a few questions. You have indicated that you think that the timeframes that I have put in my bill for the White House Conference clearly will give you ample time, but you want the flexibility to act earlier if that is possible.

If you had your druthers, what would you like to see in the bill? When is the earliest you could begin the State conferences? When would you like to shoot for the State conferences, and when would you like to shoot for the Washington Conference?

Mr. BOWLES. If we had our preference, Mr. Chairman, we would like to begin the State conferences in March 1994 and have the national conference in May 1995. We think that gives us ample time to meet the needs; that is what we would like to aim for. Perhaps, we could do it a little quicker, but that is what we would like to aim for.

Chairman LAFALCE. I would be very amenable to an amendment that either I prepare or another prepares that would accommodate that. We will work on that with you.

Mr. BOWLES. Clearly, we would like to do it as fast as possible.

Chairman LAFALCE. There are a couple of things I am concerned about. I don't want it to be rushed. It should not be scheduled so soon that you do a poor job, and yet I want it as soon as we can so that it could be as meaningful as possible.

My second concern is, I don't want it to become involved, if at all possible, within the political process, as people will take advantage of it for political purposes. I want to avoid that to the extent we can.

You would like to begin the State conferences around March 1994 and then to have the Washington Conference, did you say, May or June?

Mr. BOWLES. May 1st.

Chairman LAFALCE. Of 1995?

Mr. BOWLES. Yes, sir.

Chairman LAFALCE. Why don't we see if we can't come to accord on something like that and, perhaps, offer an amendment along those lines.

Mrs. MEYERS. Mr. Chairman, that sounds much better to me. It starts it earlier. It doesn't look as if we have just intentionally avoided the election.

I had called for this to fall in April 1995. Your suggestion is May 1995. It seems that is an excellent compromise, and I would be happy to talk to Mr. LaFalce.

Chairman LAFALCE. We will try to work out something together that will reflect that.

Mr. MANZULLO. I have a question.

Chairman LAFALCE. I am going to go down the line. I don't have any other questions.

Mrs. Meyers, do you have any more questions?

Mrs. MEYERS. Yes; I do. Let me say that I do support the CDC Program, as you know, and the increase in 1993 funds. The program originally had a $775-million authorization. This increases that by $125 million and that is a 16-percent increase, and I can understand that. The concern that I have is that in the 1994 authorization there is a 45-percent increase, and that seems very substantial. I wonder if you could explain why such a tremendous increase in 1994?

Mr. BOWLES. Congresswoman Meyers, we have a computer program which we have had in place for a number of years at the SBA. I have recently examined the actual forecast against the actual results of the 504 Program, and within just a few standard deviations of change, this program has accurately predicted the demand for the 504 Program. Our program does indicate that we will have demand at this level next year.

In talking to the people in the various CDC's who are involved in the program, they tell us that they believe the demand will also be at this level. Clearly, long-term funds are a scarce resource for small business. We think this program offers an attractive vehicle for small business to get the capital they need for machinery, equipment, and facilities, and we are not surprised by the increase in demand that we are experiencing in the program. Since it has such a low-credit subsidy rate, we are very pleased that they are availing themselves of the program.

Mrs. MEYERS. It has a low-subsidy rate. There are so many good things about the program. Still, it is a substantial increase in one program, and I don't know if you intend to find the money someplace else within the SBA, and, if so, what program is it coming out of?

Mr. BOWLES. Next year, the money will come out of the 502 Program. The program level request for 1994 for the 504 Program is $761 million. For the 502 Program, it is $147 million. That is a total of $908 million.

We can reprogram from the 502 Program into the 504 Program, and we should have adequate funds to meet the demand.

Mrs. MEYERS. The request is not coming in the 502 Program; it is coming in the 504 Program?

Mr. BOWLES. Yes, ma'am; we think the 502 Program will be around the $40 million level—it is this year—next year.

Mrs. MEYERS. Does what I mentioned in my opening remarks bother you at all, Mr. Bowles, that it seems as if banks are just unwilling to lend money to small businesses unless there is a Federal guarantee?

Now, in this one the loss rate is so low, and I suppose there is not reason for concern, but it doesn't seem to me as if we ought to have to provide a Federal guarantee for as much small business lending as we do.

Mr. BOWLES. Congresswoman, I remain concerned with the liquidity that is in the banking system today and with the unmet demand for small business loans. I share your concern.

Mrs. MEYERS. If I could ask a question or two on the Small Business Development Centers, Mr. Chairman.

Are the new regulations the same ones that were drafted under former Administrator Saiki, and I thought those were excellent regulations that she drafted, and these look excellent. I can't determine what the difference is. If they are not the same, there is surely not a lot of difference, and can you point out what the differences are?

Mr. BOWLES. To the best of my knowledge, there is not a great deal of difference in these regulations and the prior ones.

Mrs. MEYERS. Why is there a prohibition in the law against publishing these regulations?

Mr. BOWLES. Are you talking about the SBDC?

Mrs. MEYERS. Yes.

Mr. BOWLES. I am sorry. I thought you were still on the 504 Program. Excuse me.

Mrs. MEYERS. No; I was talking about SBDC also when I asked the question about the regulations by former Administrator Saiki.

Mr. BOWLES. Yes, ma'am. I am not familiar with the history that went on in the SBDC regulation controversy that occurred in the past. I haven't tried to understand that. I have really focused on the future.

I have looked at the regulations. I think the regulations make sense. I think they will make it a more efficient, more effective operation that will give us more control over policy development. They will leave policy implementation in the hands of the SBDC's where it belongs, so I am very much in favor of the regulations.

I haven't really tried to focus on the history of why there was a problem in the past.

Mrs. MEYERS. I just think that is the oddest thing that we prohibit promulgation in the law. Are you aware of that, we prohibit in the law——

Chairman LAFALCE. The reason is that if you recall back, there was a time when an administration wanted to abolish the SBA, and there was also a time when the administration did not want to have any Federal role within the SBDC. They wanted to abolish the partnership that existed between the Federal Government and the State governments with regard to the SBDC; and it was deemed necessary to preserve the partnership between the Federal and State governments to prohibit them from issuing the regulations that they had prepared that would, in fact, have ceased the Federal role 100 percent.

Now, that no longer appears to be the case. We can return to normalcy.

Mrs. MEYERS. We can take out that prohibition then about publishing them. That makes a great deal more sense and takes away some of the confusion.

I would like you to comment on section 4(a) of the bill. What is this system? Who runs it? How long will they run it? Is it competitively bid? What does it do? To whom is it available?

Mr. BOWLES. Currently the information clearinghouse center for the SBDC's is in Albany, New York. It is at the SBDC at the University of New York in Albany. Prior to that it was at the University of Georgia SBDC.

Mrs. MEYERS. I thought it was still in Georgia.

Mr. BOWLES. To the best of my knowledge, it is at the University of New York.

My understanding is that at the beginning of fiscal year 1993 we conducted a contract competition to operate the clearinghouse during fiscal year 1993. Result, it was moved to New York at a later time.

The purpose of the clearinghouse is to really serve as the business library and research organization for the SBDC's and for the SBA. These are the people who have the information necessary to provide to the small business owners who come to SBDC's with inquiries about information that they need for their various business operations.

The use of a grant, we believe, is the appropriate means of getting this function performed. We think the SBDC's are the right place for this function to be performed. A grant allows the agency the maximum flexibility in defining the scope of a clearinghouse center without the constraints imposed when a contract is used.

Chairman LAFALCE. We have 10 minutes now for the next vote. We can either go for another 5 minutes or recess.

Mrs. Meyers, it is your time; do you want to continue.

Mrs. MEYERS. I am still puzzled by why we are aren't getting some matching funds in, why we are doing this with direct grants? I would like the Administrator to explain the cooperative agreements in section 4(a). I guess I wonder why this is not being bid? Maybe not every year, but every 3 to 5 years, why are we not placing this out for bid? Why are we just leaving it in one place and doing it by direct grant?

Mr. BOWLES. Congresswoman, I guess my answer to that is, we believe this is where the information is stored. We think an SBDC is the place that can provide it in the most efficient and effective manner. We think there probably isn't anywhere else where this amount of information would be available in one place, and, therefore, we think sourcing it to an SBDC is the right way to go.

I am a great believer in the competitive bid mechanism as long as you can get the information from multiple sources of the quality that you want. We simply think this information would not be generally available in any other source other than in this place.

Mrs. MEYERS. Thank you, Mr. Chairman.

Mrs. CLAYTON. Mr. Chairman, could I ask a follow-up question on that?

Chairman LAFALCE. We have to have some order, and we can't have follow-up questions by any member at any time that an issue is concerned.

Mrs. CLAYTON. Could I ask her to yield?

Chairman LAFALCE. Perhaps you could have, but her time has expired.

Mrs. CLAYTON. I want to make sure that just because I am a freshman, we don't have some order here. I want to raise that on the table.

Chairman LAFALCE. We are trying to have order and that means we have to have some adherence when we have this many members in attendance——

Mrs. CLAYTON. I understand, Mr. Chairman, but I have seen us go out of order before.

Chairman LaFalce. We do go out of order on occasion when we have a small number of members, and we don't have the time restraint like we have right now. But right now, because we do have a vote, I am going to recess. We will come back and resume with the 5-minute rule.

[Recess.]

Chairman LaFalce. The Small Business Committee will reconvene.

I recognize the next person, Mr. Torkildsen.

Mr. Torkildsen. Thank you, Mr. Chairman.

I would like to thank Mr. Bowles for appearing here today. I know you have a very difficult job ahead of you. I wish you all success.

I suppose just a brief question, and it varies slightly from the immediate subject area, but maybe you can help out in that area. I am concerned that the effect of the budget package we are looking at is going to have a very detrimental effect on small business. Noticeably, those who are subchapter S corporations, the Senate put in a rate of 36 percent for subchapter S.

It would be a higher tax rate for small business than for large business. I think it is going to be extremely anti-small business. Is there anything in the legislation we are going to be looking at today or any steps that you are aware of that the Clinton administration is proposing to take to at least try and alleviate some of that unequal treatment for small business versus larger business?

Mr. Bowles. When I originally heard this issue, I, too, had some concern, and then I did my homework. Once I did my homework, my concerns were alleviated.

I met with the President and asked him if we could do this research, and he very much wanted it to happen. Today, there are 7 million taxpayers in this country who file their taxes each year where their primary source of income comes from a trade or business. So, that would be a proprietorship, partnership, or Subchapter S corporation form of business ownership. Of that 7 million, 96 percent of them will not be affected at all by the change in the marginal tax rates.

Of that 4 percent who are affected, the average income of those companies before deductions is $560,000. Taking this a step further, of those 7 million taxpayers, 98 percent of them are not affected by the change in the surtax provision at all above $250,000.

The 2 percent that are, they have an average income in excess of $1 million. Breaking that down even further, of those taxpayers who have average incomes in excess of $1 million, 40 percent of them are lawyers, doctors, investment bankers, lobbyists, and the like.

So, my concern, just looking at those facts, I have to remind people that a Subchapter S corporation is clearly not necessarily a small business. What it is, is a company with a few number of shareholders, not necessarily a small business.

I even went further than that. I said, is it fair to even that 4 percent, and that 2 percent who have incomes in excess of $50,000 or even in excess of $1 million in the case of the surtax. Let me tell you why I think it is.

If you are a shareholder of AT&T, as an example, that makes you an owner of AT&T, and if you want to take some money out of the business, the only way you can do it is through a dividend. Well, AT&T is going to pay a 35-percent tax on those earnings. You are going to pay a tax yourself of up to 40 percent.

So, that is a 61 percent tax to take money out of the company. If you are a subchapter S corporation and you want to take money out of the business, the highest tax you are going to pay is about 40 percent. So, you are still better off even if you are one of these 2 percent, if you are a subchapter S corporation versus a C corporation, to take money out of the business.

Now, if you want to leave money in the business, then you have every reason to simply convert to a C corporation and not pay in excess of what large companies do. So, I felt from that basis it was fair.

I even went one step further. I went back and looked on a historical basis. If you go back and look on a historical basis, at where the 39.6 percent marginal rate kicked in under President Reagan, as an example, it kicked in at a $65,000 level versus the $250,000 level we are proposing.

Mr. TORKILDSEN. Are you saying prior to the 1986 tax reform days?

Mr. BOWLES. Yes; so I think no matter how you look at it, this is a bogus issue for small business.

Mr. TORKILDSEN. I understood that you have a different taxing sequence for subchapter (s) corporations which are limited by the number of shareholders, not necessarily by income. But the whole rationale was to create an entity that would not be taxed at that 61 percent. If you are a small business, it looks like 96 to 98 percent, at least by income definition, would be in that category. You are going to strangle a lot of small businesses.

Mr. BOWLES. I was just saying they won't be.

Mr. TORKILDSEN. From your comments, can I ask, would you consider at least stressing a tax rate, whatever comes out, at least be the same for C corporations and subchapter S?

Because even without the millionaire surtax, at least the Senate is proposing a 35-percent rate for C corporations and 36 percent for subchapter S.

Has the administration said they should be the same rate?

Mr. BOWLES. Right now, to get money out of a business—again, I stress that—even if you are a big company that happens to have a few number of shareholders and, therefore, has a high amount of income, to get money out, you are still at an advantage to be a subchapter S corporation.

If you are an owner of a big corporation and you want to get money out, you are going to have to pay a 61 percent tax. If you want to get money out of a subchapter S corporation, the maximum tax you are going to pay is 40 percent. So, you are still better off being a subchapter S corporation.

If you want to leave money in the business, then you have every right, if you are one of these big companies that happens to be a subchapter S corporation, to convert to a C corporation.

Chairman LAFALCE. The time of the gentleman has expired.

I would call upon Mr. Poshard next, except I believe Mrs. Clayton has a unanimous consent request she would like to make.

Mrs. CLAYTON. I would ask unanimous consent to ask a question out of order.

Apparently that procedure would allow me to follow up on a question that Representative Meyers asked.

Chairman LAFALCE. Are there any objections?

Hearing no objections.

Mrs. CLAYTON. Thank you.

I wanted to follow the line of question that Congresswoman Meyers was speaking about. Really this is for clarification and understanding.

Please know that I support SBDC's because I know many of them and their work in the universities. In fact, I have worked with them.

But help me understand how the clearinghouse works with their contractor or the grant cooperative agreement that you will have with Albany State, and if these contracts will be individualized, about the individual SBDC's; and then the next question is, help me understand what is the nature of the thrifts, information for small business owners, and their operation?

Is this information then available to others, or is this private, privileged information? Help me understand it.

Mr. BOWLES. Again, I have only been at the SBA for 72 days. The scope of my knowledge is still somewhat limited.

First of all, the SBDC clearinghouse is called for in the SBDC legislation. The funds for the SBDC clearinghouse are appropriated to the SBA. The SBDC clearinghouse is the repository for all business materials developed by the SBDC's in the course of their work.

That is the scope of the information.

Mrs. CLAYTON. Does that make it privileged information because it is developed in the scope of their work?

Mr. BOWLES. I don't know. I can't answer that question. What I can tell you is that each of the SBDC's do access this information on a regular basis on behalf of the small businesses that come to them with questions. So, an SBDC can go to the clearinghouse, access that information, and then use it on behalf of the owners of small businesses that come to them.

Since the beginning, an SBDC has always performed this clearinghouse function, and we believe that allowing them to continue to do it on this basis will allow us to do this work in a more efficient, and cost-effective manner.

Mrs. CLAYTON. What is the arrangement now? A contract relationship?

Mr. BOWLES. Yes, ma'am; it is now a bid on some kind of regular basis. The bids have always been awarded to an SBDC.

What we would like to do is go to a grant where we can negotiate and get a little bit more control of the negotiation process with the SBDC that might be awarded the program.

Mrs. CLAYTON. Is the grant now a fee service, or a grant? How is the account financed? With a grant arrangement for fee for service arrangement?

Mr. BOWLES. I am sorry. You have surpassed my knowledge.

Mrs. CLAYTON. Thank you, Mr. Chairman.

Thank you, Mr. Bowles.

Chairman LAFALCE. Mr. Poshard.

Mr. POSHARD. Thank you, Mr. Chairman.

I guess I would, first of all, say to the gentlelady, do you have to leave early? Was there some reason why you asked to speak out of order?

Mrs. CLAYTON. Yes; I am due at 2:00. Should I have given that reason, sir?

Mr. POSHARD. No; but as a matter of courtesy, we all have things to do and places to be sometimes. You could have had your own time to ask those questions.

Mrs. CLAYTON. I will take that under advisement.

Mr. POSHARD. Mr. Bowles, with regard to the Section 504 Program and the permanent fixed rate financing under that program, what are the default rates under that program right now? Do you know that?

Mr. BOWLES. I can't tell you the exact default rate. I don't have that information with me. It is the lowest default rate we have in that program. I don't recall the exact number right now. I could get that for you and bring it to you.

Mr. POSHARD. SBA lends 40 percent on a second lien?

Mr. BOWLES. Yes; SBA does have a second lien. Private lenders put up 50 percent of the funds and have a first lien position, and small business puts up the remaining 10 percent of the money.

Mr. POSHARD. With respect to the jobs created under that program, what kind of jobs are those?

I know we have been very successful. As the chairman pointed out, that is really phenomenal in terms of the actual cost of Federal outlays per job, $44.

Do we have a tracking system to know whether those are minimum wage jobs, whether they are industrial-wage-based jobs? Do we have any way of knowing that?

Mr. BOWLES. Congressman, that is a good question. Unfortunately I don't know what the payroll is for the job.

What I do know is that most of the jobs are manufacturing oriented jobs. But I can't tell you how far above the minimum pay scale they are or what the average payroll is of the employee who works in the 504 Program.

I don't even know if that information is available. But if it is, I will certainly find that out and give it to you.

Mr. POSHARD. I would appreciate that.

If you could, send that over to me. If you have any information that relates to that, I would appreciate it.

With regard to the Small Business Development Centers, just as a followup to Mrs. Meyers' questions, is one of the reasons, or is it a primary reason at all, that we wish to change this to a grant-based system the fact that the grants or cooperative agreements would exempt the SBDC's from providing matching funds?

Do we have some evidence that matching funds are a problem right now?

Mr. BOWLES. No, sir; they would not be required to provide matching funds. The whole purpose is to streamline the process as

well as to make it more efficient and cost effective. That is the whole purpose behind it.

Mr. POSHARD. So, no one at this point in time has said raising matching funds is a big problem for us with regard to this specific——

Mr. BOWLES. Such grants and cooperative agreements would be exempt from——

Chairman LAFALCE. It is my understanding they never have raised matching funds from the clearinghouse, which is different from a regular——

Mr. BOWLES. They are exempt.

Mr. POSHARD. So, that is an exemption——

Chairman LAFALCE. This is simply a procedural thing. There was only one or two SBDC's in the United States that were interested in doing this.

Mr. POSHARD. The reason I referenced it, Mr. Chairman, is that it is in the Administrator's statement. I was just curious about why that was entered in there.

Chairman LAFALCE. Well, I think it would make it explicit, that it is exempt. It is exempt now, but this would make it explicit.

Mr. POSHARD. One other question along the lines of your testimony. With regard to the European Commission, you didn't go into your oral testimony at any length; but where are we? Is that being successful in those emerging democracies? Are we helping those people learn how to create jobs?

Mr. BOWLES. I think we are. The program has been in existence since January 1991. Today, there are five SBDC's, three in Poland and two in Hungary. The locations of the sites were selected outside of the major cities where there is help available.

The first and second year were principally spent in doing planning and needs assessment, determining the feasibility of the project, would it really work, and, if it did work, how much would it cost. Then for the last year in Hungary and Poland, we have actually been involved in setting up the SBDC's themselves. They are almost identical to the SBDC's in the United States. They are put with a university. They do offer free consultations as the SBDC's do here.

The SBDC's offer a broad range of management skills. There is 6 weeks of intensive training in the United States for the people who are managing the SBDC's. All of the people who are managing them have advanced degrees. We have also built in some degree of flexibility, because you have to in order to operate in the former Eastern Bloc countries.

Based on my personal experience, having traveled in these areas and having gone over there on various missions with other business people, I found that potential business people in these countries, and most all of these are potential business people, not only lack capital but they really lack the rudimentary business skills that you need in order to have a success.

I haven't visited one of these yet, but I believe the concept makes sense. We are watching it very carefully. The reason we haven't put one in the Czech or Slovak Republics yet is we haven't been able to find the right people to form the right framework in which

to do it. We feel we are close in that regard, and once we do that, we will bring those people over here to be properly trained.

Mr. POSHARD. Thank you, Mr. Bowles. I appreciate it.

Thank you, Mr. Chairman.

Chairman LAFALCE. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman.

Mr. Bowles, earlier in the comments by Mrs. Meyers, you referred to the fact that you had not delved back into the history of the administration in previous years because you wanted to deal with the future.

But in reference to the SBDC's, your comments were—and I believe the site was actually changed last fall from the University of Georgia to Albany State, which was history to you because you have only been at the SBA for 72 days—but in your comments you refer to the fact that the information you received from the University of Georgia was not satisfactory.

However, the truth of the matter is that Albany State actually underbid the University of Georgia is the reason they are receiving the contract. Is that not true?

Mr. BOWLES. That is correct. I stand corrected. I apologize to you.

Mr. COLLINS. Well, we all know where the information is. Albany State underbid the University of Georgia. But now we want to change from the bid process to the grant process. Would that not, then, lead this to be located in Albany State for an unknown time?

Mr. BOWLES. I don't think so, sir. At least not to the best of my knowledge. We will still look to several SBDC's to give us input as to whether or not they would like to be considered to serve as a clearinghouse. We will negotiate with that SBDC that we think can do the best job at the best possible cost, to serve that function.

Mr. COLLINS. What is the cost today?

Mr. BOWLES. I think the cost is around $200,000, sir.

Mr. COLLINS. Onto another matter, the purpose of the conference, the National Conference of Small Business——

Mr. BOWLES. The White House Conference?

Mr. COLLINS [continuing]. Yes; is to make the public aware of the essential contribution Small Business has made toward the economy, jobs, and business ownership, et cetera.

Based on the 6 months that I have been here, noticing the actions of Congress and the actions of this committee, Mr. Chairman, I believe we first need to make ourselves aware of the importance of the small business to America and to the creation of jobs and listen to what they are telling us back home.

I know in just the last 2 weeks, during the break, I held three small business conferences in the Third District of Georgia, and the message was the same from each: Fewer regulations, tax incentives instead of increased taxation, get Government off our backs, less Government.

I think if we just made ourselves aware and acted on behalf of what we hear at home, we would be much further down the road than spending $5, $6, $7, or $8 million on a White House National Conference to hear the same thing we are hearing at home.

I will conclude my remarks there, Mr. Chairman. Thank you.

Chairman LAFALCE. Thank you very much.

Mr. Lancaster.

Mr. LANCASTER. Thank you, Mr. Chairman.

Thank you, Mr. Bowles. I am interested in the Central Europe, having just returned from a visit to Bulgaria over the 4th of July recess.

Are the countries specified in the act to which this will apply? Or is there flexibility to include other countries in the former Eastern Bloc?

Mr. BOWLES. To the best of my knowledge, these countries were specified in the act. They were Poland, Hungary, and the Czech and Slovak Republics.

Mr. LANCASTER. Of course, it is too early at this point to know their success because you are just getting started, and probably we don't need to expand too much more broadly than where we are until we know it is going to work.

But I think there are opportunities in other former Warsaw Pact countries that are pro-American and pro-free market economy now to have a similar impact. As you evaluate the success of this program and the countries specified, you may also want to explore other countries where this kind of program might be beneficial to trade opportunities and business opportunities in this country and perhaps suggest additions as you make these functioning programs in the countries now specified.

Chairman LAFALCE. Just to give a bit of history, the committee did go to Central Europe in January 1990. We came back convinced that we should concentrate our efforts on those three countries, Poland, Hungary, and Czechoslovakia.

Once the project got off the ground, we could make a judgment as to whether to extend it elsewhere, given the political context of these other countries. Some would suggest we should expand it immediately. Yugoslavia was mentioned. We thought it best not to do that. Then they wanted to go to the Baltic Republics. Let's just do the doable first.

Of course, we especially had difficulties in Czechoslovakia, because now we have the Czech Republic and the Slovak Republic.

Expansion is something that I would be interested in doing. But until we have some track record with these three countries, I don't think it would be wise to diffuse our resources.

Mr. LANCASTER. That was not my suggestion, Mr. Chairman. I was simply making inquiry as to how flexible we were going to be in those countries.

Yesterday, I visited with the director of CDC in North Carolina—actually in Mr. Rose's district—who came to see me on another matter, and, knowing of my participation in this committee, he brought up a problem that he is having.

I just wanted to raise that issue with you, because this is a problem which has been brought to the attention of your office, although probably not your personal attention, but which has not yet been addressed.

His concern is that with the regulations under which they provide assistance to small businesses, that they must go much further than is commercially acceptable in the banking community in giving loans, approving loans. As a result the particular loan with which he is concerned, and with which Congressman Rose has

spoken with your office about, next week or the week after it will have been a year since the first application was made.

The matter is still being bounced back and forth from Charlotte to Fayetteville. His concern was that what they were having to go through was far more than a similar loan granted by a banking institution would have been.

I would simply call that to your attention. I will get further detail to you, perhaps in addition to or in case you have not had the information that was sent to you by Congressman Rose's office, to bring to you the same information that has not yet yielded any results in that loan.

I hope that, as a businessperson, you will take a look at what is required of the CDC's in extending credit and make certain that it is in line with commercially acceptable practices—accepted practices for lending and not in excess of what would be expected of a business that was seeking a loan from a bank under other circumstances.

Mr. BOWLES. Thank you. I will take a look at this matter. It is inexcusable for it to go on for a year. You should get a yes or no much quicker.

Mr. LANCASTER. This is a situation which is now at a critical point because this business has now just received three large contracts that it must start performing by, I think, September 1st. Without the money, they are going to have a default on those contracts.

I will get further detail to you. I hope, as a general rule, not just on this particular, that you might review the processes that are required in these loans to make certain that they are not onerous and not beyond what is generally acceptable in the lending community.

Mr. BOWLES. We are doing that now. We had a town meeting in Hartford, CT last week where I met with the owners of small businesses and listened to their concerns and ideas.

After that meeting, I met with 42 different lenders, and a number of community development corporations. I met a number of small, what are normally called, country banks. I met with some of the major money center banks as well as some nonbanks.

We have eight of these town meetings scheduled throughout the country. We have asked everyone to come prepared to talk about three things: First, how we can make our programs more user friendly and how we can change the programs so they are not as difficult to use; second, to look at some innovative programs similar to the 504 Program, where we might get more bang for our buck. As an example, I want to see if there are any other innovative programs that would serve a niche of small business needs.

The third thing is to ask people to look at how we can create a more active secondary market for small business loans. We are trying to get that real world input from the private sector so we can make some better recommendations.

Mr. LANCASTER. Thank you, Mr. Bowles.

Chairman LAFALCE. Mr. Knollenberg.

Mr. KNOLLENBERG. Thank you, Mr. Chairman.

Mr. Bowles, I notice in a previous question from my colleague, Mr. Torkildsen, you mentioned something about the bogus issue

surrounding the case of the tax increase that applies to the unincorporated businesses, the partnerships, sole proprietorships, and so forth.

One thing I would like to ask of you, if you have the numbers, I would like to have those numbers made in print form as to the number of small businesses that are affected. I think you mentioned 97 percent aren't.

Mr. BOWLES. What I said is that of the 7 million taxpayers who filed their tax returns where their primary source of income comes from a partnership, sole proprietorship, 95 percent of them aren't affected and 98 percent aren't affected by the change in the surtax.

Mr. KNOLLENBERG. I do want those numbers, if you would supply them.

My question has to do with the fact that you mention this is a bogus issue here. I have a problem with that statement, because of the fact that taxes aren't bogus, because a great deal of taxes will, if things work as planned, hit people who are in small business.

What I am concerned about is I introduced a bill myself that I attempted to get——

Chairman LAFALCE. I am going to ask unanimous consent that we confine Mr. Knollenberg, Mr. Sarpalius, and Ms. Waters' time to 3 minutes apiece.

Mr. KNOLLENBERG. I can do that.

Chairman LAFALCE. Without objection, so ordered.

Mr. KNOLLENBERG. H.R. 2124, the bill I introduced, in order to be produced as an amendment to the tax bill, demanded there be a CBO estimate or scoring for purposes of revenue, because when I introduced it I was freezing the taxes at the current level. The joint committee on taxation did produce some numbers. Those numbers, over 5 years, came out to $29 billion. That is what would be derived from this 2 percent you are talking about.

That is not bogus. That is pretty substantial. It hits a lot of people who are trying to expand. At a time when they are trying to expand, they are getting hit by a tax. That tax means they will not expand. It means they will not hire. It means they will not create more jobs or do more in the way of making the economy stronger.

So, I really question what you are saying about it being a bogus issue. I don't think it is.

Mr. BOWLES. Let me be a little clearer, then.

First of all, I have spent my entire career in the business world.

Second, I think it is a bogus issue as it relates to small business. I do not believe it is a small business issue. Subchapter S corporations are not necessarily small businesses. They are companies with a few number of shareholders. When I think of a small business, I don't think of a company generally that has $560,000 in income or, in the case of those affected by the surtax, average income in excess of $1 million.

I think someone who wants to take that money out of a business, and they are still able to take it out at a lower tax rate—like I can as a shareholder of AT&T—I think that is principally just a wealthy person. It is another way for a wealthy person to have a tax break. It is the same as it affects the orthodontist or the CEO of Exxon. I don't see this as a small business issue.

Mr. KNOLLENBERG. I disagree.

Chairman LAFALCE. The time of the gentleman has expired. Mr. Sarpalius.

Mr. SARPALIUS. Thank you, Mr. Chairman.

Under this proposal, you are cutting about $6 million from what was discussed earlier, from the Central European Small Business Development Commission.

By cutting these funds, are we taking away opportunities from small businesses overseas?

Mr. BOWLES. Again, I don't think we are cutting it. What we are doing is spreading it out over a longer period of time. We are going to $2 million in each of the next 4 years as opposed to having $8 million this year.

As I understand it, the authorizations, I believe, have been at the level of $3 million 2 years ago, $5 million a year ago, and $8 million this year. The actual appropriations have been $1 million, $1.5 million, and $1.5 million.

So, we are using it in the manner in which it really is needed.

Chairman LAFALCE. We weren't getting appropriations to match the authorization, so let's stretch out the authorizations.

Mr. SARPALIUS. Are you working with the Department of Commerce offices overseas and providing assistance with——

Mr. BOWLES. Yes, sir.

Mr. SARPALIUS. Have you thought about creating an office of international financing?

Mr. BOWLES. I have been rethinking the SBA's entire role as it relates to international trade. Clearly, I believe that foreign trade is a critically important issue to small business. If you look at the statistics, since 1989, 70 percent of the growth in this country has come from businesses that export.

If you look at where that growth is coming from, Fortune had an article just a week ago that said that the 50 largest exporters in the Fortune 50 largest exporters had an increase last year of 1.1 percent versus total exports were up 6.2 percent.

So, clearly, small businesses are beginning to really become one of the dominant forces in the exporting market.

If we really are going to compete in this global marketplace, we are going to have to teach small businesses how to export. What we are doing is reexamining all of our exporting programs, not just our financing programs but also our business development programs. Also we are trying to look at maybe having a one-stop shop where a small business could go to one place and access collaborative information from the 19 different Federal agencies that are now involved in exporting.

We are working very hard, working in conjunction with the Commerce Department, the Export Import Bank, and with others to come up with a coordinated policy, of which we are very actively involved from the SBA's viewpoint.

Mr. SARPALIUS. Thank you.

Chairman LAFALCE. Ms. Waters.

Ms. WATERS. Thank you very much.

Quickly and concisely, what can I do to get a Small Business Development Center in the foreign country of South Central Los Angeles?

Mr. BOWLES. You have brought if to my attention. I will look at it today.

Ms. WATERS. Thank you.

Chairman LAFALCE. I will be glad to look at that with the gentlelady and the Administrator also. If there are no further questions, the committee will adjourn.

Thank you very much.

[Whereupon, at 2:35 p.m., the committee was adjourned, subject to the call of the Chair.]

APPENDIX

OPENING STATEMENT OF
HONORABLE JOHN J. LaFALCE, CHAIRMAN

HEARING ON H.R. 2594, THE MISCELLANEOUS AMENDMENTS ACT OF 1993

JULY 20, 1993

Today the Committee is meeting to receive testimony on H.R. 2594, the Miscellaneous Amendments Act of 1993.

Members have before them a copy of the bill and a sectional analysis which explains the measure. I will not go into the details of the bill, but will simply say that it addresses three issues which need to be acted upon immediately- - - the authorization for the certified development company or CDC loan program, the commencement of the White House Conference on Small Business, and technical changes to the Small Business Development Center program and its replication under a pilot program in Central Europe.

Today it seems that almost everything is viewed in budgetary terms, so let me briefly talk about funding.

In regard to the certified development company program, the bill does increase the authorization level for this year. This change will not require a supplemental appropriation. This is a very efficient program. Under the Credit Reform Act, it costs $500,000 to approve $100 million in debenture guarantees. This minimal amount can be shifted from other previously appropriated funds the Agency has available. Without this change in the authorization level, this valuable program will run out of budget authority by early September.

Next year the program will be funded as part of the regular bill which the House passed yesterday.

Secondly, it is imperative that we provide the necessary authority for the SBA to begin planning for the White House Conference on Small Business. Even if we act immediately, the agency will be hard-pressed to hold the National Conference in 1995 if we are to have maximum participation of local small businessmen and women at the preceding state and regional conferences.

In regard to the White House Conference, we are proposing to increase the authorization by $2 million simply to ensure that the $5 million originally authorized is, in fact, available. In 1993, as part of SBA's salary and expense account, $2.5 million was initially included. The supplemental appropriations bill then reduced the salary and expense account by rescinding $2 million and using the money for 7(a) loan guarantees. We must ensure that those funds have been technically restored to the authorized amount.

The increase proposed by the bill is simply to forestall any argument about the amount that still needs to be appropriated to pay for the conference - - - another $4.5 million. By increasing the authorization, we have eliminated any need to get into legislative history to insure that we can appropriate another $4.5 million.

Finally, the Committee must act on the SBDC pilot program. The Committee originally anticipated a three year program. The program is authorized for $3 million, $5 million and $8 million respectively over the three years; however, the total appropriation was only $4 million. Thus we are proposing to extend the program by three years, but at the reduced rate of $2 million for each of the extra years, to compensate for the less than anticipated level of funding during the program's initial years.

We are pleased and honored to have before us today the Administrator of the Small Business Administration, the Honorable Erskine Bowles. Welcome Mister Administrator.

Before I recognize Administrator Bowles, do other Members have opening remarks?

STATEMENT OF JAN MEYERS, RANKING REPUBLICAN
HEARING ON H.R. 2594
MISCELLANEOUS SMALL BUSINESS AMENDMENTS ACT
OF 1993
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES
JULY 20, 1993

Mr. Chairman, I am glad that the Committee will be hearing testimony from Administrator Bowles on a matter I consider to be of the greatest importance to our nation's small businesses--and that is the convening of the next White House Conference on Small Business. As you know, Mr. Chairman, I introduced on June 15, 1993 a measure which has garnered bipartisan support to postpone the Conference for one year. My bill, H.R. 2421, provides that the state conferences may begin after December 1, 1993, and that the National Conference occur between January 1 and April 1, 1995.

Obviously, the White House Conference cannot go on as scheduled under current law. The Bush Administration failed to appoint the White House Conference Commissioners until December, 1992--at which point the state conferences should already have been underway. The current Administration has not taken any action to plan for the Conference. I am very disappointed by the lack of priority that has characterized the conduct of this important event, and so are my small business men and women constituents. Many have approached me at meetings back in Kansas to express their strong support for this small business forum, and to inquire about the progress in plans for the upcoming Conference.

Mr. Chairman, for those reasons I feel very strongly that our small business men and women deserve the opportunity to identify and communicate their concerns and recommendations to

Congress and to the President at the earliest possible time. Quite frankly, Mr. Chairman and Administrator Bowles, I cannot support the timeline for the Conference put forward in H.R. 2594. This Member of Congress does not want to tell her small business constituents that, "we want to hear from you--but not until after the next election." Much legislative action that will profoundly affect small business is being considered during this session of Congress, particularly the President's proposed economic plan and health care reform.

While I am heartened by Administrator Bowles' written statement in strong support of the Conference, I urge him to use his talents and knack for getting things done quickly, as exhibited by the quick elimination in backlog of 7(a) loans, to move plans for the Conference ahead as expeditiously as possible. I would also state that I hope the Administrator would give us a timeframe for the appointment of the Chief Counsel for Advocacy, since I assume the Chief Counsel and his or her staff will assist in operating the Conference. Can we expect the Advocate's appointment by the August recess?

Mr. Chairman, my staff informs me that the Office of Management and Budget cleared the Administrator's testimony on Friday, July 16, 1993. However, the minority was not provided with a copy of Mr. Bowles' testimony until this morning at 10:00 a.m. I would appreciate a clarification by the Administrator during his remarks as to the fact that his testimony indicates it is the desire of President Clinton to delay the commencement of any state conferences until after the November, 1994 elections. Furthermore, Mr. Chairman, I hope all diligence is occurring to make certain that testimony is received from witnesses and distributed to all Committee members in accordance with the Committee rules.

With regard to the other items included in the Chairman's bill, turning first to the additional authorization for the Certified

Development Companies (CDCs), I must express my concern that we are continuing to treat the symptoms without addressing the root of the problem. The CDC loan programs have been highly successful in providing long-term, fixed-rate loans for businesses in need of capital improvements, such as new buildings or equipment, to expand. I strongly support this program, which has an extremely low default rate, and is the only federal program that I am aware of which has a job creation requirement. However, as demand for this program, and for others such as 7(a) continue to grow by leaps and bounds each year, can Congress continue to try to match these increases and ignore the bigger problem--which is the failure of banks to lend to small businesses? When are the Committees of jurisdiction going to exhibit some leadership on this issue? The President has taken steps to begin to lighten the regulatory burden on banks which has contributed to the credit crunch, but we need to be able to show alot more progress in this area.

I am very glad the Administrator is here to explain the proposed changes in the Small Business Development Center program, because I find them somewhat confusing. I look forward to the testimony and would hope we are told exactly what we are doing under H.R. 2594, and why.

Mr. Chairman, I apologize for my lengthy statement, but we will be covering many important issues this morning and I felt it important to establish my views and concerns so that the Administrator may address them in his remarks. Thank you for your attention to these issues and I look forward to hearing from Mr. Bowles.

I

103D CONGRESS
1ST SESSION

H. R. 2594

To amend the Small Business Act, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JULY 1, 1993

Mr. LAFALCE introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To amend the Small Business Act, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Miscellaneous Small Business Amendments Act of 1993".

CERTIFIED DEVELOPMENT COMPANY AUTHORIZATIONS

SEC. 2. Section 20 of the Small Business Act (15 U.S.C. 631 note) is amended—

(1) in subsection (g)(2) by striking "$7,030,000,000" and by inserting in lieu thereof "$7,155,000,000";

(2) in subsection (g)(2) by striking "$775,000,000" and by inserting in lieu thereof "$900,000,000";

(3) in subsection (i)(2) by striking "$8,083,000,000" and by inserting in lieu thereof "$8,458,000,000"; and

(4) in subsection (i)(2) by striking "$825,000,000" and by inserting in lieu thereof "$1,200,000,000".

WHITE HOUSE SMALL BUSINESS CONFERENCE

SEC. 3. The White House Conference on Small Business Authorization Act (15 U.S.C. 631 note) is amended—

(1) in section 2 by striking from subsection (a) "not earlier than January 1, 1994, and not later than April 1, 1994" and by inserting in lieu thereof "not earlier than October 1, 1995, and not later than December 31, 1995";

(2) in section 2 by striking from subsection (a) "December 1, 1992" and by inserting in lieu thereof "November 15, 1994";

(3) in section 5 by striking the second sentence of subsection (a) and by inserting in lieu thereof the following: "Subsequent to the date of enactment of the Miscellaneous Small Business Amendments Act of 1993, but not later than thirty days after the date

of enactment of such Act, the President shall select and appoint eleven individuals to the Commission."; and

(4) in section 9 by striking from subsection (a) "$5,000,000" and by inserting in lieu thereof "$7,000,000".

SMALL BUSINESS DEVELOPMENT CENTER PROGRAMS

SEC. 4. (a) Section 21(c)(7) of the Small Business Act (15 U.S.C. 648) is amended by striking "system which will" and by inserting in lieu thereof the following: "system. Subject to amounts approved in advance in appropriations Acts, the Administration may make grants or enter cooperative agreements with one or more centers to carry out the provisions of this paragraph. The matching funds provisions of subsection (a) shall not be applicable to grants or cooperative agreements under this paragraph. The system shall".

(b) Section 25(i) of the Small Business Act (15 U.S.C. 652) is amended by striking "$8,000,000 for fiscal year 1993" and by inserting in lieu thereof "$2,000,000 for each of fiscal years 1993, 1994, 1995, and 1996".

(c) Section 223 of the Small Business Credit and Business Opportunity Enhancement Act of 1992 (106 Stat. 986) is amended by striking the last sentence of subsection (b).

Sectional Analysis

of H.R. 2594

"Miscellaneous Small Business Amendments Act of 1993"

Certified Development Company Authorization

Section 2 increases the total authorization for loan and debenture guarantees by the Small Business Administration in fiscal year 1993 from $7.03 billion to $7.155 billion and within these amounts it increases the authorization for debenture and loan guarantees for certified development companies from $775 million to $900 million.

It also increases the total authorization for loan and debenture guarantees by the Small Business Administration in fiscal year 1994 from $8.083 billion to $8.458 billion and within these amounts it increases the authorization for debenture and loan guarantees for certified development companies from $825 million to $1.2 billion.

White House Small Business Conference

Section 3 delays the dates for the White House Conference on Small Business. The state meetings would begin not earlier than November 15, 1994 (instead of not earlier than December 1, 1992), and the national conference would be held between October 1, 1995 and December 31, 1995 (instead of between January 1, 1994 and April 1, 1994.

It also provides that the President shall appoint commissioners to oversee the conference, and that such appointments shall be made after the enactment of this Act but not later than 30 days after the date of such enactment.

It also increases the authorization for the conference to $7 million (now $5 million).

Small Business Development Center Programs

Section 4(a) authorizes the Small Business Administration to fund Small Business Development Center information sharing systems (i.e., a library of materials) by making grants or cooperative agreements with one or more such centers instead of by issuing a contract after soliciting proposals.

Subsection (b) reduces the authorization for the Small Business Development Center replication program in Central Europe for 1993 from $8 million to $2 million and authorizes a similar amount for each of fiscal years 1994 through 1996.

Subsection (c) strikes a provision of current law which prohibits the Small Business Administration from publishing regulations on the Small Business Development Center Program in the Federal Register.

Public Law 101-409
101st Congress

An Act

To authorize the President to call and conduct a National White House Conference on Small Business.

Oct. 5, 1990
[H.R. 4773]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled. That this Act may be cited as the "White House Conference on Small Business Authorization Act".

White House Conference on Small Business Authorization Act

AUTHORIZATION OF CONFERENCE

SEC. 2. (a) The President shall call and conduct a National White House Conference on Small Business (hereinafter referred to as the "National Conference") not earlier than January 1, 1994, and not later than April 1, 1994, to carry out the purposes described in section 3 of this Act. The National Conference shall be preceded by State conferences, with at least one such conference being held in each State, and with at least two conferences being held in any State with a population of ten million or more. The State conferences shall be held not earlier than December 1, 1992, and at their conclusion shall be followed by regional meetings of delegates in at least six cities prior to the National Conference.

15 USC 631 note.
State and local governments
15 USC 631 note.

(b) Participants in the National Conference and other interested individuals and organizations, are authorized to conduct activities at the State and regional level prior to the date of the National Conference, and shall direct such activities toward the consideration of the purposes of the National Conference.

(c) The National Conference shall be conducted under the general supervision and direction of the White House Conference on Small Business Commission (hereinafter referred to as the "Commission") established in section 5 of this Act.

PURPOSE OF CONFERENCE

SEC. 3. The purpose of the National Conference shall be to increase public awareness of the essential contribution of small business; to identify the problems of small business; to examine the status of minorities and women as small business owners; to assist small business in carrying out its role as the Nation's job creator; to assemble small businesses (particularly those who are not actively involved in small business or trade organizations) to develop such specific and comprehensive recommendations for executive and legislative action as may be appropriate for maintaining and encouraging the economic viability of small business and, thereby, the Nation; and to review the status of recommendations adopted at the 1986 White House Conference on Small Business.

15 USC 631 note.

CONFERENCE PARTICIPANTS

SEC. 4. (a) In order to carry out the purposes specified in section 3 of this Act, the National Conference shall bring together individuals

15 USC 631 note.

concerned with issues relating to small business: *Provided*, That no owner, officer or employee of a small business concern may be denied admission to any State conference, nor may any fee or charge be imposed on any such owner, officer or employee except an amount to cover the cost of any meal provided plus a registration fee of not to exceed $10. The Commission may not impose any fees or charges except as specified in this subsection and may not accept any gifts of money from any source. Amounts collected as fees and charges shall be used solely to pay the cost of meals provided and to defray the expense of meeting rooms. The Commission shall—

Records.

(1) keep a record of all receipts and disbursements as directed by the Administrator of the Small Business Administration;

(2) open and maintain an account in an institution whose accounts are insured by an instrumentality of the United States, into which account all receipts shall be deposited and from which all payments shall be disbursed; and

Reports.

(3) provide such periodic financial reports to the Small Business Administration as the Administrator may request.

(b) Delegates, including alternates, to the National Conference shall be elected by participants at the State conferences: *Provided*, That each Governor and each chief executive official of the political subdivisions enumerated in section 4(a) of the Small Business Act may appoint one delegate and one alternate: *Provided further*, That each Member of the United States House of Representatives, including each Delegate, and each Member of the United States Senate may appoint one delegate and one alternate: and *Provided further*, That the President may appoint one hundred delegates and alternates. Only owners, employees or corporate officers of small businesses shall be eligible for appointment or election pursuant to this subsection, and delegates may be elected only at the conference for the State in which he or she resides.

COMMISSION

Establishment.
15 USC 631 note.

SEC. 5. (a) There is hereby established a White House Conference on Small Business Commission. The President shall select and appoint eleven individuals. The commissioners shall be responsible for the overall preparation for and conduct of the National Conference, including the issuance of the report specified in section 7 of this Act.

(b) At least seven of the individuals appointed shall be small business owners, employees or corporate officers of a small business. Other members may include representatives of businesses (other than small), associations, or educational institutions.

(c) Not more than six of the Commissioners shall be of the same political party. No member shall be an officer or employee of the Federal Government, in either the executive branch or the Congress.

(d) Commissioners shall be appointed for a term which shall expire on the date the report is submitted, except if the status of any such appointee changes so that he or she would have been ineligible for appointment, such individual may continue as a Commissioner for not longer than a thirty-day period beginning on the date such individual becomes ineligible.

(e) A vacancy shall be filled in the manner in which the original appointment was made.

(f) Commissioners shall serve without pay, except they shall be entitled to reimbursement for travel, subsistence, and other necessary expenses incurred by them in carrying out their functions in the same manner as persons employed intermittently in the Federal Goverment are allowed expenses under section 5703 of title 5, United States Code.

(g) Six Commissioners shall constitute a quorum for the transaction of business. Meetings shall be at the call of the Chairperson who shall be designated by the President.

(h) The Commission shall have an executive director who shall be appointed by the Chairperson, and such other staff as it deems appropriate. The executive director and other personnel may be appointed without regard to section 531(b) of title 5, United States Code, and without regard to the provisions of such title governing appointments in the competitive service, and may be paid without regard to the provisions of chapter 51 and subchapter III of chapter 53 of such title relating to classification and General Schedule pay rates, except that no individual so appointed may receive pay in excess of the annual rate of basic pay payable for GS-18 of the General Schedule.

(i) The Commission may procure temporary and intermittent services under section 3109(b) of title 5 of the United States Code but at rates for individuals not to exceed the daily equivalent of the maximum annual rate of basic pay payable for GS-18 of the General Schedule.

(j) Upon request of the Chairperson, the head of any Federal department or agency may detail, on a reimbursable basis, any of the personnel of such department or agency to the Commission to assist in carrying out the National Conference without regard to section 3341 of title 5 of the United States Code. Except as otherwise prohibited by law, the Commission may secure directly from any department or agency of the United States information necessary to enable it to carry out its duties under this Act. Upon the request of the Chairperson, the head of such department or agency shall promptly furnish such information to the Commission.

(k) The Administrator of the General Service Administration shall provide to the Commission, on a reimbursable basis, such administrative support services as the Commission may request.

PLANNING AND ADMINISTRATION OF CONFERENCE

SEC. 6. (a) In order to facilitate the carrying out of the provisions of this Act, the Administrator of the Small Business Administration— 15 USC 631 note.

(1) shall provide such assistance as may be necessary for the organization and conduct of conferences at the State and regional levels as authorized under section 2 of this Act;

(2) is authorized to enter into contracts with public agencies, private organizations, business entities and academic institutions to carry out the provisions of this Act: *Provided*, That the Administrator shall coordinate any such contracting in advance with the Commission if it has met and organized; and Government contracts.

(3) shall prescribe such financial controls and accounting procedures for the handling of income received by the Commission as fees and charges and the payment by the Commission of authorized meal and meeting room expenses.

(b) The Chief Counsel for Advocacy shall assist in carrying out the provisions of this Act by preparing and providing background materials for use by participants in the National Conference, as well as by participants in State and regional conferences.

(c) The White House Conference on Small Business Commission shall conduct appropriate outreach efforts to obtain the participation, at both State conferences and at the National Conference, of individuals who are not actively involved in small business or trade organizations.

(d) EXPENSES.—(1) Each delegate to the National Conference shall pay his or her expenses of attending the Conference. However, prior to the National Conference, any delegate may seek reimbursement from the Conference upon written application establishing that his or her anticipated expenses would constitute a financial burden.

(2) The Commission shall adopt rules, guidelines, and procedures to implement this provision. No delegate shall be reimbursed for any expense except transportation, meals and lodging and shall not be reimbursed at more than the rates provided to employees of the Federal Government who travel to Washington, DC, on official business during the time when the National Conference is held.

(3) At the beginning of each State conference, all attendees shall be advised of this provision and any rules or procedures adopted by the Commission to implement it.

(4) A separate accounting for these reimbursed expenses shall be provided to the Small Business Administration.

REPORTS REQUIRED

15 USC 631 note.

SEC. 7. (a) Not more than four months from the date on which the National Conference is convened, a final report of the National Conference shall be submitted to the President and the Congress. The report shall include the findings and recommendations of the delegates as well as proposals for any legislative action necessary to implement their recommendations. The report shall be available to the public.

(b) At the same time, the Commission shall—

(1) provide a final financial report to the Small Business Administration and shall deliver to the Agency all of its financial books and records; and

(2) deposit in the Treasury of the United States, for crediting as miscellaneous receipts, any monies collected as fees and charges pursuant to the authority of this Act which remain unexpended.

FOLLOWUP ACTIONS

Reports.
15 USC 631 note.

SEC. 8. The Small Business Administration shall report to the Congress annually during the three-year period following the submission of the final report of the National Conference on the status and implementation of the findings and recommendations.

AVAILABILITY OF FUNDS

Appropriation authorization.
15 USC 631 note.

SEC. 9. (a) There are hereby authorized to be appropriated for fiscal year 1992, or any year thereafter, not to exceed $5,000,000 to carry out the provisions of this Act, and such sums shall remain available until expended. New spending authority or authority to

enter contracts as provided in this Act shall be effective only to such extent and in such amounts as are provided in advance in appropriations Acts.

(b) No funds appropriated to the Small Business Administration shall be made available to carry out the provisions of this Act other than funds appropriated specifically for the purpose of conducting the National Conference. Any funds remaining unexpended at the termination of the National Conference, including submission of the report pursuant to section 7, shall be returned to the Treasury of the United States and credited as miscellaneous receipts.

Approved October 5, 1990.

LEGISLATIVE HISTORY—H.R. 4773:

HOUSE REPORTS: No. 101-669 (Comm. on Small Business).
CONGRESSIONAL RECORD, Vol. 136 (1990):
Sept. 10, considered and passed House.
Sept. 18, considered and passed Senate.

STATEMENT BY CONGRESSMAN JIM RAMSTAD
BEFORE THE HOUSE SMALL BUSINESS COMMITTEE
July 20, 1993

HEARING ON H.R. 2594 WITH ADMINISTRATOR BOWLES

Mr. Chairman, I am pleased to welcome SBA Administrator Erskine B. Bowles today to discuss H.R. 2594, the Miscellaneous Small Business Amendments Act of 1993.

I want to take this occasion to thank Mr. Bowles for his stellar performance in getting the recently approved 7 (a) loan funds out of Washington and into the hands of the thousands of small business persons who so badly need them.

Mr. Bowles, you are doing an excellent job!

As far as the topic of today's hearing goes, I must say I have some concerns about some elements of the legislation, particularly those dealing with the White House Conference on Small Business.

As a strong supporter of this important event, I want to see it take place as quickly and expeditiously as possible.

Past conferences have yielded important legislative recommendations that have ultimately and concretely benefitted small businesses.

Putting the conference off once again is a profound disservice to the small business men and women of our country who badly need solutions to the problems facing them -- overregulation, staggering health care costs, a lack of access to credit and a litany of other problems.

As we anticipate the markup of this legislation, I strongly urge my colleagues to move to hold this important event as quickly as possible.

Mr. Chairman, thanks again for holding this hearing and for giving us the opportunity to hear from Administrator Bowles.

STATEMENT FOR
CONGRESSMAN FLOYD H. FLAKE
BEFORE THE COMMITTEE ON SMALL BUSINESS
JULY 20, 1993

GOOD AFTERNOON MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE ON SMALL BUSINESS. I THANK ERSKINE BOWLES, ADMINISTRATOR OF THE SMALL BUSINESS ADMINISTRATION (SBA), FOR APPEARING BEFORE THE COMMITTEE THIS AFTERNOON AND I LOOK FORWARD TO THE INSIGHTFUL PERSPECTIVE THAT HE WILL PROVIDE.

TODAY WE CONVENE TO EXPLORE THE IMPLICATIONS OF THE MISCELLANEOUS SMALL BUSINESS AMENDMENTS ACT OF 1993. MORE SPECIFICALLY, THIS ACT CONSIDERS THREE INDEPENDENT ISSUES INCLUDING THE CERTIFIED DEVELOPMENT COMPANY AUTHORIZATION, THE WHITE HOUSE SMALL BUSINESS CONFERENCE AND THE SMALL BUSINESS DEVELOPMENT CENTER PROGRAMS. SECTION 2 INCREASES THE TOTAL AUTHORIZATION FOR LOAN AND DEBENTURE GUARANTEES BY THE SBA IN FISCAL YEAR (FY) 1993 FROM $7.0 BILLION TO $7.2 BILLION AND IN FY 1994 FROM $8 BILLION TO $8.5 BILLION. SECTION 3 SEEKS TO DELAY THE DATES FOR THE WHITE HOUSE CONFERENCE ON SMALL BUSINESS AND SECTION 4 AUTHORIZES SMALL BUSINESS DEVELOPMENT CENTER INFORMATION SHARING SYSTEMS, REDUCES THE AUTHORIZATION THE SBDC REPLICATION PROGRAM IN CENTRAL EUROPE AND STRIKES A PROVISION OF PRESENT LAW WHICH PROHIBITS THE SBA FROM PRINTING SBDC REGULATIONS IN THE FEDERAL REGISTER.

WHILE WE WISH TO CONSIDER THESE ISSUES IN AN EXPEDITIOUS MANNER, I AWAIT MR. BOWLES RECOMMENDATIONS AND SUGGESTIONS AS WE PROCEED.

bsta27

SBA U.S. Small Business Administration Washington, DC 20416

STATEMENT OF

ERSKINE B. BOWLES

ADMINISTRATOR

U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS

UNITED STATES HOUSE OF REPRESENTATIVES

JULY 20, 1993

Mr. Chairman and Members of this Committee, I am happy to be here today supporting your bill, H.R. 2594, the Miscellaneous Small Business Amendments Act of 1993. The U.S. Small Business Administration (SBA) strongly supports this legislation and each of its major sections, including increasing the authorization levels for the agency's Certified Development Companies (CDCs), changing the date of the White House Conference, allowing SBA to enter into grants or cooperative agreements with Small Business Development Centers, and changing the authorization for the Central European Commission.

As I have testified before, the President has given me four goals as Administrator of the SBA -- help relieve the credit crunch, reduce regulatory and paperwork burdens, restructure and revitalize the SBA, and serve as his eyes and ears in the small

business community. I believe that passage of this legislation will help me to meet each of these goals. I will now provide you with a brief summary of the SBA's position on each section of the bill.

Section 2. Certified Development Companies

The SBA's Certified Development Company Loan Program, or 504 program, provides permanent fixed rate financing for businesses needing to acquire industrial or commercial buildings, and for those wishing to buy machinery and equipment. Under this program a bank or other private lender provides 50 percent of project cost, and takes a first lien position. Forty percent of the project is financed by an SBA guaranteed debenture and has a second lien position. The small business itself finances the remaining 10 percent.

A network of 400 Certified Development Companies serves as the program's foundation. They are for the most part non-profit organizations sponsored by private interests and by state or local governments. These CDC's organize the financial package and process, close and service the loans.

This program provides small businesses with the equivalent of long-term corporate bond financing. Long-term fixed rate financing benefits small businesses by removing uncertainty about

the availability and cost of capital for the term of the credit. The low interest rates available in today's environment will reduce the cost of capital to small businesses for years to come.

With a subsidy rate of 0.5 percent, the 504 program is an excellent value to the taxpayer. Moreover, under the 50-40-10 financing structure, each 504 dollar leverages one and one-half private sector dollars.

Another important factor regarding the 504 program is that it creates jobs. SBA has a regulatory requirement that in most cases at least one job must be created for each $35,000 of loan guaranty. The program actually succeeds in creating one job for each $8,900 in guaranty dollars. Because of the low subsidy rate of 0.5 percent, the cost in actual federal outlays per job is only $44.50.

Small business demand for 504 loans has been growing steadily at about 32 percent per year over the past several years. Projected demand for this fiscal year exceeds $800 million, compared to our appropriation of $700 million and our combined 502 and 504 authorization ceiling of $775 million.

With our 502 program level appropriation of $40 million in loan guarantee dollars, we can only reprogram an additional $35 million or so at most into the 504 program unless there is an

increase in the authorization.

SBA and the Office of Management and Budget are working on a request to reprogram up to the authorization ceiling right now, but this will still leave us short of funds for the current fiscal year. We need this authorization increase so that we can reprogram additional funds into 504 and avoid shutting the program down in August or September.

If the program continues to grow at the current rate, demand in FY 1994 would reach about $1.2 billion.

H. R. 2594 would give us the authorization increases we need to serve our customers by raising the ceiling to $900 million in FY 1993 and $1.2 billion in FY 1994. I strongly support the increased ceilings for the 502 and 504 programs.

Section 3, White House Conference

Mr. Chairman, the White House Conference is important to the President and important to me. As you know the past conferences were very successful. Legislation supportive of small business has arisen as a direct result of the 1980 and 1986 Conferences -- the Regulatory Flexibility Act, the Equal Access to Justice Act, the Prompt Payment Act, the Paperwork Reduction Act, equal access to credit to women and minorities, and the Small Business

Innovation Research program.

The 1986 Conference was an important tool in squelching the Reagan Administration's efforts to eliminate the SBA. While each of these programs has been beneficial we need to do more. The state, regional and national conferences will focus the Congress and the Administration on issues that foster small firm growth and development. The Conference will also help keep us on a steady course of making SBA programs and services more valuable to our customers.

The timelines in your bill -- the state conferences to begin after November 1994 and the national conference to be held between October 1 and December 31, 1995 -- give us the lead time to make this the best conference ever. I know the President is anxious to appoint the Commissioners. Increasing the authorization will allow the Conference to be fully funded until the report is produced in late 1995 or early 1996. We have a large task ahead of us and we are ready to get to work.

Section 4, Small Business Development Centers

Mr. Chairman, Section 4(a) of the bill would allow the SBA to enter into grants or cooperative agreements with Small Business Development Centers (SBDCs) for the purpose of developing and implementing an information sharing system. This

provision is necessary because in September of 1988, SBA, in cooperation with the Association of Small Business Development Centers, established an SBDC Clearinghouse as required by Public Law 96-302. The Clearinghouse, which initiated operations in April 1989, was designed for SBDCs to share SBDC-developed materials, information and experiences as well as SBA materials and program information with other SBDCs and SBA. From its inception to date, the Clearinghouse has handled more than 13,368 inquiries.

H.R. 2594 would convert the current contract procedure to a grant/cooperative agreement procedure, allowing SBA to enter into grants or cooperative agreements with the Clearinghouse operation for the purpose of developing and implementing an information sharing system. Such grants or cooperative agreements would be exempt from the requirement that SBDCs provide matching funds. The Agency believes that the use of a grant or cooperative agreement will make this program much more effective.

Section 4(b) of the bill would affect the Central European Small Business Development Commission, which is an independent Commission that reports to the Congress. It was established in November of 1990 by Public Law 101-515, in accordance with Section 25 of the Small Business Act. The Commission's Congressional mandate is to establish self-sustaining management and technical assistance centers in the Czech and Slovak Federal

Republic, Poland and Hungary, similar to the Small Business Development Center Program in the United States.

In fiscal year 1991, the Commission awarded contracts to undertake research to assess the needs of small businesses in Poland, Hungary and the Czech and Slovak Republics. The contractors researched each country, and evaluated the SBDC program in the United States to determine their applicability for use in these countries. The researchers also assessed potential host institutions as locations for Small Business Centers.

During fiscal year 1992, the doors to the Small Business Centers were opened in Poland and Hungary, providing management and technical assistance programs to entrepreneurs in these two countries. In the Czech and Slovak Republics, site evaluations were completed for potential Small Business Centers.

The Small Business Center programs in Poland and Hungary have only been open for nine (9) months. They are expected to provide their initial performance data in their September 1993 Report. The Czech and Slovak Republics have not yet opened.

In 1993, the Commission will monitor and strengthen the Small Business Centers in Poland and Hungary and work towards the establishment of a Small Business Center in the Czech and Slovak Republics. Through the use of consultants previously involved

with SBDCs in the United States, the Centers in Poland and Hungary will also receive on-site assistance to support their first year of operations. In the Czech and Slovak Republics, assistance will focus on the definition of SBDC program activities, the establishment of an organizational structure, and the recruitment of a director.

Since the authorizing legislation provides that SBA shall have one of the three Commissioner positions, we have, of course, been involved in and informed about the work of the Commission.

Although the Commission was authorized the sum of $3,000,000 for fiscal year 1991, $5,000,000 for fiscal year 1992 and $8,000,000 for fiscal year 1993, actual appropriations were $1,000,000 for fiscal year 1991, $1,500,000 for fiscal year 1992, and $1,500,000 for fiscal year 1993.

H.R. 2594 would change the authorization for the Central European Commission from $8 million in fiscal year 1993 to $2 million for each of fiscal years 1993, 1994, 1995 and 1996. SBA supports the objectives of the Commission and agrees with the recommendations.

Section 4(c) of the bill would amend the Small Business Credit and Business Opportunity Enhancement Act of 1992 (P.L. 102-366) to allow the SBA to publish in the Federal Register,

regulations governing the SBDC program. In September 1992 the Congress instructed the Agency to draft proposed regulations but prohibited their publication in the Federal Register. The Administrator was instructed to submit the proposed regulations to the Committees on Small Business and the Committees on Appropriations of the Senate and House not later than 180 days after the date of enactment of the Act. The SBA working closely with the Association of SBDCs, completed its most recent iteration of the proposed regulations and submitted them to Congress for their review on November 16, 1992. These proposed regulations represent the Agency's and the Association of SBDC's best ideas.

The amendment of Section 223 of the Small Business Credit and Business Opportunity Enhancement Act of 1992 (106 stat. 986) would allow SBA to publish, in the Federal Register, regulations governing the SBDC Program.

The Agency needs regulations to uniformally administer the SBDC Program. Regulations would establish a framework for the effective and efficient operation of the Program and therefore, SBA strongly endorses this amendment.

Mr. Chairman this concludes my remarks regarding the SBA's support for the passage of H.R. 2594. I would be happy to answer any questions the Committee may have.

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